

Message Text

CONFIDENTIAL

PAGE 01 STATE 189871

67

ORIGIN FRB-02

INFO OCT-01 AF-10 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10

L-03 NSAE-00 NSC-10 PA-03 RSC-01 PRS-01 SPC-03 SS-15

USIA-15 ACDA-19 IO-13 AID-20 COME-00 EB-11 TRSE-00

XMB-07 OPIC-12 CIEP-02 LAB-06 SIL-01 OMB-01 STR-08

AGR-20 CEA-02 /206 R

66630

DRAFTED BY: NORMAND BERNARD

APPROVED BY: AF/E: W.B. COOTE

----- 051055

P 242133Z SEP 73

FM SECSTATE WASHDC

TO AMEMBASSY NAIROBI PRIORITY

CONFIDENTIAL STATE 189871

FOR: THE HONORABLE ARTHUR F. BURNS, CHAIRMAN FEDERAL
RESERVE BOARD, HOTEL INTERCONTINENTAL

IN AN INTERVIEW REPORTED IN TODAY'S PAPERS, SENATOR SPARKMAN SAID
THAT BANKS "HAVE GONE TOO FAR IN RAISING THE PRIME RATE TO 10 PER
CENT." HIS OFFICE ISSUED A STATEMENT TO THE EFFECT THAT HE HAD
CONFERRED WITH YOU ON THE INTEREST RATE RISE. FIRST NATIONAL
BANK OF CHICAGO ANNOUNCED TODAY THAT IT WOULD HOLD ITS PRIME AT
10 PER CENT THIS WEEK.

PROFESSOR FELLNER WAS NAMED BY PRESIDENT NIXON TODAY TO SERVE ON
THE COUNCIL OF ECONOMIC ADVISERS.

PRESIDENT NIXON SIGNED THE GOLD DEVALUATION BILL OVER THE WEEKEND.
EXCHANGE MARKETS WERE CONSIDERABLY QUIETER TODAY. THE EUROPEAN
BAND WAS NOT FULLY EXTENDED AND THERE WAS NO INTRA-EUROPEAN IN-
TERVENTION. WITHIN THE BAND THE FRENCH FRANC MOVED UP SHARPLY,
TO WITHIN 3/4 PER CENT OF ITS CENTRAL RATE AGAINST THE MARK.

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 STATE 189871

THE DOLLAR WAS SLIGHTLY EASIER AGAINST THE EUROPEAN BAND AND LITTLE CHANGED AGAINST STERLING, THE YEN, AND THE CANADIAN DOLLAR. THE TOKYO MARKET WAS CLOSED FOR A HOLIDAY. EURO-DOLLAR RATES WERE OFF SHARPLY, REFLECTING THE EASING IN U.S. MONEY MARKET RATES. THREE-MONTH DEPOSITS FELL BY 1/4 TO 10-13/16 PER CENT. GOLD DECLINED \$.75 TO \$102.50. THE BALANCE OF PAYMENTS ON THE OFFICIAL RESERVE TRANSACTIONS BASIS SHOWED A SURPLUS OF \$104 MILLION IN THE WEEK ENDED SEPTEMBER 19.

REAL HOURLY AND WEEKLY EARNINGS DROPPED SHARPLY BETWEEN JULY AND AUGUST REFLECTING THE SHARP RISE OF CONSUMER PRICES. NOMINAL HOURLY EARNINGS ROSE SLIGHTLY OVER THE MONTH BUT AFTER READJUSTMENT FOR PRICE CHANGE WERE DOWN 1.7 PER CENT. COMPARED TO A YEAR EARLIER, ALL MEASURES OF NOMINAL EARNINGS WERE UP SIGNIFICANTLY BUT ALL MEASURES OF REAL EARNINGS SHOWED DECLINES RANGING UP TO 2.1 PER CENT FOR SPENDABLE WEEKLY EARNINGS.

THE FEDERAL RESERVE COMMODITY PRICE INDEX INCREASED IN THE WEEK OF SEPTEMBER 18 AS PRICES OF FOODSTUFFS AND INDUSTRIAL MATERIALS ROSE BY 0.6 AND 0.4 PER CENT, RESPECTIVELY. THE INDEX OF FOODSTUFFS HAS FALLEN NEARLY 16 PER CENT SINCE THE BEGINNING OF PHASE IV ON AUGUST 13, BUT IN LIGHT OF THE PRECEDING RISE IT IS STILL NEARLY 11 PER CENT ABOVE THE LEVEL OF JULY 18. DOMESTIC FINANCIAL MARKETS CONTINUED TO DISPLAY A FIRM TONE, ESPECIALLY IN THE TREASURY BILL AREA WHERE GOOD DEMAND AND VERY THIN POSITIONS CONTRIBUTED TO SIZEABLE FURTHER RATE DECLINES. TALK OF AN EASIER MONETARY POLICY CONTINUES TO DOMINATE MARKET ATTITUDES. THE 3-MONTH BILL FELL 31 BASIS POINTS TO 7.38 PER CENT. BOND PRICES ROSE MODERATELY AND STOCK PRICES EXTENDED THEIR ADVANCE IN ACTIVE TRADING. THE DOW JONES INDUSTRIALS ROSE NEARLY 9 POINTS TO A LEVEL OF ABOUT 937, CAPPING AN ADVANCE OF NEARLY 50 POINTS OVER THE LAST 6 TRADING SESSIONS. FEDERAL FUNDS TRADED IN A 10-1/2 59 10-3/4 PER CENT RANGE, MOSTLY IN THE UPPER END OF THE RANGE. THERE WERE NO DESK OPERATIONS. THE AVERAGE CONTRACT INTEREST RATE ON 80 PER CENT CONVENTIONAL HOME MORTGAGES ROSE 2 BASIS POINT FURTHER IN THE WEEK ENDING SEPTEMBER 21 TO A LEVEL OF 8.83 PER CENT. ALTHOUGH LAST WEEK'S INCREASE WAS THE SMALLEST SINCE THE END OF JUNE, THE RATE HAS RISEN 17 BASIS POINTS DURING THE FIRST 3 WEEKS OF SEPTEMBER. THE BALANCE OF TRADE FIGURES FOR AUGUST, CENSUS BASIS, SHOW A REVERSION TO A DEFICIT WITH EX-
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 STATE 189871

PORTS OF \$72.1 BILLION AND IMPORTS OF \$72.3 BILLION, BOTH AT SEASONALLY ADJUSTED ANNUAL RATES. RUSH

CONFIDENTIAL

NNN

Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 24 SEP 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: collinp0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973STATE189871
Document Source: CORE
Document Unique ID: 00
Drafter: NORMAND BERNARD
Enclosure: n/a
Executive Order: GS COOTE
Errors: N/A
Film Number: n/a
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730914/aaaaakcn.tel
Line Count: 109
Locator: TEXT ON-LINE
Office: ORIGIN FRB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators:
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: collinp0
Review Comment: n/a
Review Content Flags:
Review Date: 15 NOV 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15-Nov-2001 by elyme>; APPROVED <04 MAR 2002 by collinp0>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INTEREST RATE RISE AND GOLD DEVALUATION
TAGS: EFIN, US, XG
To: NAIROBI
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005